

PERAC AUDIT REPORT



Winthrop

Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2015



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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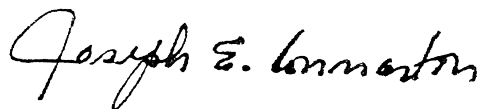
May 4, 2018

The Public Employee Retirement Administration Commission has completed an examination of the Winthrop Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2015. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson, Walter Kloc and Michael Nicolazzo who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Regular Compensation:

The Winthrop DPW pays several members a \$50 monthly allowance for cell phone usage, and retirement contributions are withheld from these payments. Pursuant to 840 CMR 15.03 (3) (a), “to be considered regular compensation, any compensation to an employee must be compensation ... for services performed”. Payments related to cell phones are for a tool of the job, rather than a service, so they cannot be regular compensation. See PERAC Memo #33 of 2011 for further discussion of “tool vs service”.

There is a school department employee who receives a stipend for processing the free and reduced price lunches. Retirement contributions are not being withheld from this payment, which does satisfy the requirements of regular compensation found in 840 CMR 15.03.

Recommendation: The payroll department should be instructed to end withholding contributions on the cell phone stipends and to begin withholding contributions on the lunch processing stipend.

Board Response:

The Board has instructed the payroll department to end withholding contributions on cell phone stipends and to begin withholding contributions on the lunch processing stipend.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

		AS OF DECEMBER 31,			
		2015	2014	2013	2012
Net Assets Available For Benefits:					
Cash		\$628,835	\$85,339	\$324,150	\$4,746,092
PRIT Cash Fund (A)		0	(300,285)	0	0
PRIT Core Fund		54,723,069	54,953,963	50,568,061	39,592,634
Accounts Receivable		80,152	56,559	41,951	64,634
Accounts Payable		(220)	0	0	0
Total		<u>\$55,431,835</u>	<u>\$54,795,576</u>	<u>\$50,934,162</u>	<u>\$44,403,360</u>
Fund Balances:					
Annuity Savings Fund		\$11,849,212	\$11,204,926	\$10,901,790	\$10,454,680
Annuity Reserve Fund		2,651,752	2,882,306	2,915,361	2,829,162
Pension Fund		5,735,069	5,761,988	5,803,423	5,887,027
Expense Fund		0	0	0	0
Pension Reserve Fund		<u>35,195,802</u>	<u>34,946,357</u>	<u>31,313,588.48</u>	<u>25,232,492</u>
Total		<u>\$55,431,835</u>	<u>\$54,795,576</u>	<u>\$50,934,162</u>	<u>\$44,403,360</u>

(A) Overdrawn account allowed in error

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$10,524,194	\$2,274,473	\$5,871,802	\$0	\$20,700,752	\$39,371,220
Receipts	1,176,091	69,942	3,056,399	309,511	4,531,740	9,143,683
Interfund Transfers	(987,470)	987,470	0	0	0	0
Disbursements	(258,135)	(502,723)	(3,041,175)	(309,511)	0	(4,111,544)
Ending Balance (2012)	10,454,680	2,829,162	5,887,027	0	25,232,492	44,403,360
Receipts	1,146,551	82,853	3,085,416	361,174	6,080,764	10,756,757
Interfund Transfers	(584,124)	583,791	0	0	333	(0)
Disbursements	(115,316)	(580,446)	(3,169,019)	(361,174)	0	(4,225,955)
Ending Balance (2013)	10,901,790	2,915,361	5,803,423	0	31,313,588	50,934,162
Receipts	1,262,951	85,694	3,152,736	371,212	3,632,768	8,505,362
Interfund Transfers	(453,564)	453,564	0	0	0	0
Disbursements	(506,252)	(572,312)	(3,194,172)	(371,213)	0	(4,643,948)
Ending Balance (2014)	11,204,926	2,882,306	5,761,988	(0)	34,946,357	54,795,576
Receipts	1,338,509	82,108	3,236,148	386,876	249,445	5,293,086
Interfund Transfers	(280,437)	280,437	0	0	0	0
Disbursements	(413,785)	(593,099)	(3,263,068)	(386,876)	0	(4,656,827)
Ending Balance (2015)	\$11,849,212	\$2,651,752	\$5,735,069	(\$0)	\$35,195,802	\$55,431,835

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Members Deductions	\$1,111,019	\$1,077,527	\$992,757	\$957,120
Transfers from Other Systems	166,289	132,357	80,153	181,071
Member Make Up Payments and Re-deposits	49,645	39,321	61,477	27,787
Investment Income Credited to Member Accounts	11,556	13,746	12,163	10,113
Sub Total	<u>1,338,509</u>	<u>1,262,951</u>	<u>1,146,551</u>	<u>1,176,091</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>82,108</u>	<u>85,694</u>	<u>82,853</u>	<u>69,942</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	67,337	62,829	58,072	58,072
Received from Commonwealth for COLA and Survivor Benefits	44,394	29,004	72,057	110,522
Pension Fund Appropriation	3,120,418	3,060,903	2,955,261	2,884,000
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>26</u>	<u>3,806</u>
Sub Total	<u>3,236,148</u>	<u>3,152,736</u>	<u>3,085,416</u>	<u>3,056,399</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>386,876</u>	<u>371,212</u>	<u>361,174</u>	<u>309,511</u>
Pension Reserve Fund:				
Interest Not Refunded	0	63	167	0
Miscellaneous Income	11,274	0	69	0
Excess Investment Income	<u>238,171</u>	<u>3,632,705</u>	<u>6,080,528</u>	<u>4,531,740</u>
Sub Total	<u>249,445</u>	<u>3,632,768</u>	<u>6,080,764</u>	<u>4,531,740</u>
Total Receipts, Net	<u>\$5,293,086</u>	<u>\$8,505,362</u>	<u>\$10,756,757</u>	<u>\$9,143,683</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Refunds to Members	\$154,337	\$150,576	\$15,039	\$9,462
Transfers to Other Systems	<u>259,447</u>	<u>355,676</u>	<u>100,278</u>	<u>248,673</u>
Sub Total	<u>413,785</u>	<u>506,252</u>	<u>115,316</u>	<u>258,135</u>
Annuity Reserve Fund:				
Annuities Paid	593,099	572,312	560,270	502,723
Option B Refunds	<u>0</u>	<u>0</u>	<u>20,175</u>	<u>0</u>
Sub Total	<u>593,099</u>	<u>572,312</u>	<u>580,446</u>	<u>502,723</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	2,223,407	2,212,654	2,226,256	2,111,796
Survivorship Payments	199,880	187,714	174,958	169,922
Ordinary Disability Payments	17,428	17,068	16,708	16,348
Accidental Disability Payments	423,344	406,920	427,034	429,405
Accidental Death Payments	113,804	145,932	147,729	144,956
Section 101 Benefits	2,701	0	0	0
3 (8) (c) Reimbursements to Other Systems	<u>282,502</u>	<u>223,884</u>	<u>176,335</u>	<u>168,747</u>
Sub Total	<u>3,263,068</u>	<u>3,194,172</u>	<u>3,169,019</u>	<u>3,041,175</u>
Expense Fund:				
Board Member Stipend	3,000	3,000	1,500	3,317
Salaries	62,035	59,444	58,258	68,521
Legal Expenses	13,587	4,430	12,793	10,284
Medical Expenses	0	0	0	56
Travel Expenses	510	0	0	44
Administrative Expenses	8,223	7,749	13,593	4,102
Accounting Services	0	0	0	6,000
Education and Training	270	0	0	0
Furniture and Equipment	458	344	769	0
Management Fees	279,072	277,690	256,586	199,802
Service Contracts	15,435	14,700	14,000	13,350
Fiduciary Insurance	4,287	3,855	3,674	4,034
Sub Total	<u>386,876</u>	<u>371,213</u>	<u>361,174</u>	<u>309,511</u>
Total Disbursements	<u>\$4,656,827</u>	<u>\$4,643,948</u>	<u>\$4,225,955</u>	<u>\$4,111,544</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Investment Income Received From:				
Cash	\$183	\$115	\$5,704	\$33,099
Pooled or Mutual Funds	1,418,417	1,476,428	1,333,502	1,191,629
Total Investment Income	<u>1,418,601</u>	<u>1,476,543</u>	<u>1,339,206</u>	<u>1,224,727</u>
Plus:				
Realized Gains	1,992,133	2,343,483	2,151,875	963,047
Unrealized Gains	<u>2,844,203</u>	<u>3,372,727</u>	<u>5,502,528</u>	<u>5,034,531</u>
Sub Total	<u>4,836,337</u>	<u>5,716,210</u>	<u>7,654,403</u>	<u>5,997,579</u>
Less:				
Realized Loss	(24,980)	0	0	0
Unrealized Loss	<u>(5,511,246)</u>	<u>(3,089,396)</u>	<u>(2,456,891)</u>	<u>(2,301,000)</u>
Sub Total	<u>(5,536,226)</u>	<u>(3,089,396)</u>	<u>(2,456,891)</u>	<u>(2,301,000)</u>
Net Investment Income	<u>718,712</u>	<u>4,103,357</u>	<u>6,536,718</u>	<u>4,921,306</u>
Income Required:				
Annuity Savings Fund	11,556	13,746	12,163	10,113
Annuity Reserve Fund	82,108	85,694	82,853	69,942
Expense Fund	<u>386,876</u>	<u>371,213</u>	<u>361,174</u>	<u>309,511</u>
Total Income Required	<u>480,540</u>	<u>470,653</u>	<u>456,190</u>	<u>389,566</u>
Net Investment Income	718,712	4,103,357	6,536,718	4,921,306
Less: Total Income Required	<u>480,540</u>	<u>470,653</u>	<u>456,190</u>	<u>389,566</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$238,171</u>	<u>\$3,632,705</u>	<u>\$6,080,528</u>	<u>\$4,531,740</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2015		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$628,835	1.1%
PRIT Core Fund	<u>54,723,069</u>	<u>98.9%</u>
Grand Total	<u>\$55,351,903</u>	<u>100.0%</u>

For the year ending December 31, 2015, the rate of return for the investments of the Winthrop Retirement System was 1.17%. For the five-year period ending December 31, 2015, the rate of return for the investments of the Winthrop Retirement System averaged 7.24%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Winthrop Retirement System was 8.58%.

The composite rate of return for all retirement systems for the year ending December 31, 2015 was 0.91%. For the five-year period ending December 31, 2015, the composite rate of return for the investments of all retirement systems averaged 7.49%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.14%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Winthrop Retirement System voted on November 22, 2004 to invest all of the system's assets with the PRIT fund as of January 1, 2005. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Winthrop Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$846.12 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$846.12 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d) (ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Winthrop Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

MEMBERSHIP:

December 8, 2011:

Any individual who is permanently employed twenty (20) or more hours per week by the Town of Winthrop or the Winthrop Housing Authority shall become a member of the Winthrop Retirement System ("System"). In addition to the foregoing, an individual or elected official must earn at least \$5,000 per year in regular compensation to be eligible for membership in the System.

December 17, 2003:

A full year for a Winthrop School Department employee who is a member of the Winthrop Retirement System shall consist of the school year of approximately 180 workdays. For all other employee-members of the Winthrop Retirement System, a full year of creditable service shall be based upon the calendar year.

July 19, 1999:

ELIGIBILITY FOR MEMBERSHIP - Full-Time (35 Or More Hours Per Week)

Employees who work at least 35 hours per week will become members of the retirement system as of their date of employment and will be deemed full-time employees.

Part-time - (24 to 34.999 hours per week)

Employees who work 24 to 34.999 hours per week after six months of employment will become members of the retirement system and will be deemed part-time employees.

This Board shall have full jurisdiction to determine eligibility of employees for membership in all cases involving part time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service.

Work of a seasonal nature shall be credited as one year of service for at least seven calendar months of work.

Enrollment

Every employee who is eligible to become a member of the Winthrop Retirement System must complete the necessary enrollment and beneficiary forms, including a birth certificate and, if a veteran of the armed forces, a military service discharge or its equivalent.

Elected officials may enroll within 90 days after the date of assuming office. If they do not enroll during that period, they waive eligibility for membership in the system for that term of office.

All references to full-time employment or a full year or similar terms in these regulations shall be deemed to be governed by their definitions.

CREDITABLE SERVICE:

May 17, 2011:

Any member purchasing past non-membership service shall have said service prorated based on 150 hours being the equivalent of 1 month of creditable service. Notwithstanding the foregoing, any member who works part-time his/her entire career, and purchases past part-time service rendered, will have all membership service deemed to be full time. Members may purchase past membership service without limitation except as noted herein, with the lone exception to be seasonal service rendered in Winthrop shall be capped at one (1) year of service.

G.L. c. 32, § 3(5) provides, in pertinent part:

[A]ny member of any system who rendered service in any governmental unit other than that by which he is presently employed, in a temporary, provisional, or substitute position and who was excluded from membership by the rules of any board, may, before the date any retirement allowance becomes effective for him, pay into the annuity savings fund of the system ... an amount equal to that which would have been withheld as regular deductions from his regular compensation for such previous period ... had such service been rendered in the governmental unit by which he is presently employed and in a position subject to the provisions of this chapter ... Upon the completion of such payments such member shall receive the same credit for such period of his previous intrastate service ... as would have been allowed if such service had been rendered by him in the governmental unit by which he is presently employed. Such member shall furnish the board with such information as it shall require to determine the amount to be paid and the credit to be allowed under this subdivision.

July 19, 1999:

Definition Of A Full Year

A full year of employment shall be credited with a full year of creditable service. Work of less than a full year shall be credited pro rata to the appropriate full year. A full year of employment shall be deemed to be year of work at a job in which no other hours in a week are available to perform said job.

Credit For Part Time Service For Work While A Member In Service

Full Year Credit: Part time work shall be credited as a full year of service for a full year of work, work of less than a full year shall be credited pro-rata.

Credit For Part Time Service Prior To Membership

Within one year of becoming a member of the Winthrop Retirement System, each person shall file a statement detailing all service for which he claims credit towards retirement in this system.

1/2 credit shall be allowed for buy back of less than 24 hours per week for a full year.

MISCELLANEOUS:

November 22, 2016:

Correction of Errors

The Winthrop Retirement Board has determined for calendar year 2016, and for all prior years, the actuarial equivalent interest rate for the correction of errors as set forth in M.G.L. c. 32, [§] 20 (5)(c)(2) and Herrick v. Essex Regional Retirement Board, 465 Mass. 801 (2013) shall be 3%. The Board shall at its January meeting each year thereafter set the interest rate for that calendar year based on a review of interest rate market indices.

July 19, 1999:

Benefits To Children Of Retirees

Benefits will be paid in accordance with G.L. c. 32 secs. 7, 9, and 12 option d and 12B. Each year by September 1, proof of enrollment in an accredited educational institution must be presented for every child over age 18 in order to receive additional benefits as provided by law.

TRAVEL:

The Winthrop Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Winthrop>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Chief Financial Officer who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Michael Perez		
Appointed Member:	Francis Carberry, Chairman	Term Expires:	6//30/19
Elected Member:		Term Expires:	12/23/17
Elected Member:	Stacy DiChiara	Term Expires:	9/22/18
Appointed Member:	Karin A. Chavis	Term Expires:	8/31/2020

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Public Employee Retirement Administration Commission as of January 1, 2015.

The actuarial liability for active members was	\$35,436,200
The actuarial liability for vested terminated members was	454,771
The actuarial liability for non-vested terminated members was	302,699
The actuarial liability for retired members was	<u>33,280,148</u>
The total actuarial liability was	\$69,473,818
System assets as of that date were (actuarial value)	<u>52,707,691</u>
The unfunded actuarial liability was	<u>\$16,766,127</u>
 The ratio of system's assets to total actuarial liability was	 75.9%
As of that date the total covered employee payroll was	\$11,694,602

The normal cost for employees on that date was	8.55% of payroll
The normal cost for the employer was	7.66% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.50% per annum
Rate of Salary Increase:	Varies by group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2015	\$52,707,691	\$69,473,818	\$16,766,127	75.9%	\$11,694,602	143.4%
1/1/2013	\$43,816,970	\$62,687,986	\$18,871,016	69.9%	\$10,188,836	185.2%
1/1/2011	\$41,833,511	\$57,190,013	\$15,356,502	73.1%	\$10,030,804	153.1%
1/1/2009	\$33,143,983	\$52,659,365	\$19,515,382	62.9%	\$10,081,571	193.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Retirement in Past Years										
Superannuation	3	6	7	9	5	4	18	11	10	6
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	0	0	0	0	0	0	0	0	0
Total Retirements	4	6	7	9	5	4	18	11	10	6
Total Retirees, Beneficiaries and Survivors	181	183	174	176	173	174	186	182	184	184
Total Active Members	274	269	236	230	234	244	238	247	263	272
Pension Payments										
Superannuation	\$1,587,438	\$1,658,297	\$1,743,343	\$1,678,806	\$1,805,119	\$1,816,527	\$2,111,796	\$2,226,256	\$2,212,654	\$2,223,407
Survivor/Beneficiary Payments	110,449	112,523	119,005	111,705	113,774	138,016	169,922	174,958	187,714	199,880
Ordinary Disability	14,068	14,368	14,908	15,268	15,628	15,988	16,348	16,708	17,068	17,428
Accidental Disability	473,642	490,575	483,583	448,318	438,363	424,220	429,405	427,034	406,920	423,344
Other	236,309	237,253	211,469	363,298	440,315	521,916	313,703	324,064	369,816	399,008
Total Payments for Year	\$2,421,906	\$2,513,016	\$2,572,308	\$2,617,395	\$2,813,199	\$2,916,667	\$3,041,175	\$3,169,019	\$3,194,172	\$3,263,068

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